

Message Text

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ACTION EB-08

INFO OCT-01 ARA-10 IO-13 ISO-00 AGRE-00 CEA-01 CIAE-00
COME-00 DODE-00 FRB-03 H-01 INR-10 INT-05 L-03
LAB-04 NSAE-00 NSC-05 PA-01 CTME-00 AID-05 SS-15
STR-07 ITC-01 TRSE-00 ICA-11 SP-02 SOE-02 OMB-01
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P R 132052Z APR 78
FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC PRIORITY 7098
INFO USMISSION GENEVA
AMCONSUL RIO DE JANEIRO
AMCONSUL SAO PAULO

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DEPT PASS STR

GENEVA FOR USMTN

E.O. 11652: /A
TAGS: ETRD, MTN, BR
SUBJECT: PROSPECTS FOR MTN SUBSIDIES CODE: BRAZILIAN VIEWS

REF: (A) BRASILIA 2896, (B) BRASILIA 2552, (C) BRASILIA 2451
(D) STATE 081853

1. DURING INFORMAL DISCUSSION WITH NSC'S ROBERT PASTOR
ON MARCH 30, FINANCE MINISTER SIMONSEN, IN DISCUSSING
BRAZIL'S EXPORT SUBSIDY SYSTEM, ESSENTIALLY CONFIRMED
MAIN POINTS OF PRESS STORY REPORTED REFTEL C. OTHERS
PRESENT WERE MINISTER-CHIEF FOR PLANNING REIS VELLOSO,
MINISTER OF INDUSTRY AND COMMERCE CALMON DE SA, AND
EMBASSY ECON/COMMERCIAL COUNSELOR.

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2. SIMONSEN OUTLINED BRAZIL'S APPROACH TO SUBSIDY
PROBLEM UNDER FOUR POINTS:

A) AGREEMENT ON EXPORT SUBSIDY CODE DEFINING
WHICH TYPES OF EXPORT INCENTIVES ARE PERMISSIBLE
(E.G., FORGIVENESS OF TURNOVER TAXES AND EXPORT-IMPORT BANK
TYPE CREDITS) AND WHICH ARE NOT;

B) PROVISION OF AN INJURY CLAUSE IN THE CODE;

C) AGREEMENT TO A FOUR-TO-FIVE-YEAR PHASE-OUT PERIOD FOR IMPERMISSIBLE INCENTIVES (ZE TOOK THIS TO REFER TO THE DOUBLE-BENEFIT TAX CREDIT); FOLLOWED BY

D) THE NEGOTIATION OF A SUPPLEMENTARY BILATERAL UNDERSTANDING WITH THE US, GOVERNING THE PHASE-DOWN OF IMPERMISSIBLE SUBSIDIES AND AVOIDING COUNTERVAILING

DUTY ACTIONS.

3. IN A SIDE COMMENT, SIMONSEN CONCEDED THE POSSIBILITY THAT EFFORTS TO NEGOTIATE A MULTILATERAL CODE MIGHT POSSIBLY FAIL; IN THAT EVENT, BRAZIL MIGHT HAVE TO CONSIDER NEGOTIATION OF A BILATERAL AGREEMENT WITH THE U.S.

4. COMMENT: IN A DISCUSSION WITH MEMBERS OF THE MINISTER'S CABINET AND OTHER SENIOR GOB OFFICIALS AT DINNER THAT EVENING, THESE OFFICIALS SHOWED CONSIDERABLE SURPRISE AT THE MINISTER'S REMARKS. THUS, THERE IS SOME QUESTION WHETHER THE MINISTER'S LIMITED OFFICIAL USE

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IDEAS HAVE AS YET BEEN STAFFED OUT WITHIN THE GOB. ON THE OTHER HAND, DURING A DISCUSSION WITH FINATT IN EARLY MARCH, MINISTER BOTEFOGO (CHIEF, FOREIGN MINISTRY'S TRADE POLICY DIVISION) SAID THE GOB HAS CAREFULLY ASSESSED THE POSSIBILITY OF FAILURE OF THE NEGOTIATIONS FOR A MULTILATERAL CODE. HE SUGGESTED THE POSSIBILITY THAT THE GOB'S NEGATIVE STANCE FOR A BILATERAL AGREEMENT IN ADVANCE OF THE CONCLUSION OF THE NEGOTIATIONS FOR A CODE IN GENEVA (AS SUGGESTED BY THE TREASURY TEAM) HAD BEEN INFLUENCED BY THE GENERAL ATMOSPHERE IN US-BRAZIL RELATIONS PREVAILING AT THE TIME. MORE IMPORTANTLY, HOWEVER, HE SAID, THE GOB AUTHORITIES PREFER AN MTN CODE BECAUSE THEY BELIEVE IT WOULD BE MORE LIBERAL AND MORE ACCEPTABLE DOMESTICALLY THAN ANY BILATERAL AGREEMENT WITH THE US BY ITSELF. HE ADDED THAT THE GOB WAS AWARE THE MTN MIGHT NOT PRODUCE A CODE AND THAT, SHOULD THAT OCCUR, THE TIME REMAINING FOR BILATERAL NEGOTIATIONS WOULD PROBABLY NOT BE SUFFICIENT TO REACH AGREEMENT BEFORE EXPIRATION OF TREASURY'S COUNTERVAILING DUTY WAIVER AUTHORITY IN JANUARY 1979. BOTAFOGO

SAID THE GOB WAS PREPARED TO RUN THIS RISK, AND
NOTED THE STORM OF PROTEST THAT WOULD RESULT IN
BRAZIL IF THE GOB AGREED TO ELIMINATE EXPORT
INCENTIVES UNILATERALLY, WITHOUT THE BENEFIT OF
A MULTILATERAL AGREEMENT.
JOHNSON

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